EX PARTE OR LATE FILED

CONSUMER ADVOCATE DIVISION
STATE OF WEST VIRGINIA
PUBLIC SERVICE COMMISSION
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July 2, 2003

ORIGINAL

Marlene H. Dortch, Secretary
Federal Communications Commission
445 12th Street, S.W., Room TW-A325
Washington, D.C. 20554

Re: In the Matter of the Federal-State Joint Board on Universal Service, CC Docket Nos. 96-45, 98-171, 90-571, 92-237, 99-200, 95-116, 98-170 and NSD File No. L-00-72
Notice of Ex Parte Presentation

Dear Ms. Dortch:

On Monday, June 30, 2003, Billy Jack Gregg and I, representing the Consumer Advocate Division of the West Virginia Public Service Commission (WVCAD), had a telephone conversation with Commissioner Jonathan Adelstein and his Senior Legal Advisor, Lisa Zaina and WCB staffer, Scott Bergmann, to discuss the WVCAD's proposal for contributions to the Universal Service Fund. Mr. Gregg and I had an identical conversation with Commissioner Michael Copps' Competition and Universal Service Legal Advisor, Jessica Rosenworcel, on Wednesday, July 2, 2003. The WVCAD's proposal – a hybrid of the current interstate revenue base and the proposal to base contributions on end-user connections – is called the "50/50 Method." Material on the 50/50 Method set forth in the attached issue paper was discussed.

Pursuant to 47 C.F.R. 1.1206(b)(1), this Notice of Ex Parte Presentation, and a copy of the issue paper are being filed electronically for inclusion in the record of the above-referenced proceedings.

Sincerely,

/s/ Patrick Pearlman

Patrick Pearlman
Counsel for West Virginia
Consumer Advocate Division
WV State Bar ID# 5755

Cc: Lisa Zaina
Jessica Rosenworcel

Proposal for Determining Federal Universal Service Contributions

50/50 METHOD
USING CONNECTIONS AND INTERSTATE REVENUES

Problem

- Current contribution methodology based on interstate revenues, which are declining or static.
- Preferred solution is use of total revenues, interstate and intrastate, but prospect of corrective legislation is uncertain.
- No consensus or even majority opinion among commenters in current proceeding on how to change contribution methodology under current law.
- In absence of legislative fix, a compromise offers the best hope for a solution.

Proposed 50/50 Method

- Under this proposal, 50% of the demand for total universal service support would be met with an assessment on interstate revenues – the same method currently used - and 50% would be met with an assessment on connections as originally proposed by COSUS.
- Connections would be defined as all end-user connections to PSTN.
- Single-line residence and business would be assessed a flat fee per connection, initially set at 50 cents per connection, one-half of assessment proposed by COSUS.
- Multi-line and high capacity business would be responsible for remainder of the connections assessment, using tiered line equivalents.
- Under the 50/50 method using connections and interstate revenues, the USF demand would be divided in half. Assuming a $6 billion fund, $3 billion would be recovered using interstate revenues and $3 billion would be recovered using connections. This would result in a 4.6% assessment rate on interstate revenues and a $0.50 monthly connection charge on single-line business and residence customers.

Advantages of 50/50 Method

- Would address the Section 254(d) problem presented by a pure connections system, and would not require changing the legal basis of the current contribution system.
- Would spread USF responsibility among industry segments approximately the same as use of total revenues.
- Could run connections-based system in parallel with existing interstate revenue system for several quarters prior to final implementation in order to give experience to carriers and USAC.
- Any future erosion in interstate revenues would be offset by growth in connections and/or capacity of connections.

Disadvantages of 50/50 Method

- Would be more administratively complex than implementing a system based on a single criterion.
- Would still have to face issues of defining providers of interstate telecommunications services, determining safe harbors, etc.

Share of contribution by industry segment under 50/50 Method

Contributor Responsibility under 50/50 Method

	2002	2003	2004	2005	2006	2007	Total Revenues
IXC	59%	51%	36%	34%	33%	32%	34%
LEC	26%	27%	39%	38%	38%	39%	37%
CMRS	15%	22%	26%	28%	29%	29%	29%
% of fund met from residential assessment	39%	41%	43%	43%	43%	42%	n/a

- The contribution shares for the years 2002 through 2007 are taken from FCC Staff study of contribution methodologies, and assume a 2004 start date for the 50/50 Method. Shares for 2002 and 2003 are the same as under current rules. The estimates for the years 2004 – 2007 are 50/50 averages of the percentages set forth for each method in the Staff study. Shares of total revenue are taken from the most recent FCC report on revenues in the telecommunications industry.[1]

Examples of Impact of the 50/50 Method

- Assuming an **average** monthly residential customer with a $30 local phone bill including a $6 subscriber line charge, a $30 long distance bill and a $30 wireless bill, USF assessments under the current rules and under the 50/50 Method are shown below. (All examples assume that the SLC is the only interstate portion of the local bill, and that wireless assessment is based on 28.5% safe harbor.)

Service	Monthly Bill	USF 9.1% interstate	50% inter state revenue	50% Connections	Total 50/50	Difference
Local	$30.00	$0.55	$0.27	$0.50	$0.77	$0.22
Long Distance	$30.00	$2.73	$1.37	$0.00	$1.37	-$1.36
Wireless	$30.00	$0.78	$0.39	$0.50	$0.89	$0.11
TOTAL	$90.00	$4.06	$2.03	$1.00	$3.03	-$1.03

- Assuming a customer with **low** long distance usage and no wireless phone, the impact would be as follows:

Service	Monthly Bill	USF 9.1% interstate	50% inter state revenue	50% Connections	Total 50/50	Difference
Local	$30.00	$0.55	$0.27	$0.50	$0.77	$0.22
Long Distance	$ 4.00	$0.36	$0.18	$0.00	$0.18	-$0.18
TOTAL	$34.00	$0.91	$0.46	$0.50	$0.96	$0.04

[1] See, *Telecommunications Industry Revenues 2001*, FCC Wireline Competition Bureau, IATD (March 2003), Table 1.

- Assuming a customer with **high** long distance usage and high wireless usage, the impact would be as follows:

Service	Monthly Bill	USF 9.1% interstate	50% inter state revenue	50% Connections	Total 50/50	Difference
Local	$30.00	$0.55	$0.27	$0.50	$0.77	$0.22
Long Distance	$60.00	$5.46	$2.73	$0.00	$2.73	-$2.73
Wireless	$60.00	$1.56	$0.78	$0.50	$1.28	-$0.28
TOTAL	$150.00	$7.57	$3.78	$1.00	$4.78	-$2.79

- Assuming a customer with **high** local usage (including intrastate toll) and low long distance usage, the impact would be as follows:

Service	Monthly Bill	USF 9.1% interstate	50% inter state revenue	50% Connections	Total 50/50	Difference
Local	$60.00	$0.55	$0.27	$0.50	$0.77	$0.22
Long Distance	$ 4.00	$0.36	$0.18	$0.00	$0.18	-$0.18
Wireless	$30.00	$0.78	$0.39	$0.50	$0.89	$0.11
TOTAL	$94.00	$1.69	$0.84	$1.00	$1.84	$0.15

- Under the 50/50 method there is still a shift in contribution responsibility from users of interstate long distance to local users. However, the impact on local users is very small and many residential customers would see an overall reduction in monthly contributions.

Examples of Impact of the 50/50 Method - 2007

- In order to test the impact of the 50/50 Method on residential customers in the last year modeled under Staff's Study – 2007 – USF assessments under the current interstate revenue base were compared to assessments under the 50/50 Method. It is assumed that the local phone bill includes a $6.50 subscriber line charge; that the SLC is the only interstate portion of the local bill; and that wireless assessment is based on 28.5% safe harbor. Based on the Staff Study, the interstate revenue assessment factor for 2007 is 11.4%, and the residential per connection rate is $1.05.

Service	Monthly Bill	USF 11.4% interstate	50% inter state revenue	50% Connections	Total 50/50	Difference
Local	$30.00	$0.74	$0.37	$0.53	$0.90	$0.16
Long Distance	$30.00	$3.42	$1.71	$0.00	$1.71	-$1.71
Wireless	$30.00	$0.97	$0.49	$0.53	$1.02	$0.05
TOTAL	$90.00	$5.13	$2.57	$1.06	$3.63	-$1.50

- Assuming a customer with **low** long distance usage and no wireless phone, the impact would be as follows:

Service	Monthly Bill	USF 11.4% interstate	50% inter state revenue	50% Connections	Total 50/50	Difference
Local	$30.00	$0.74	$0.37	$0.53	$0.90	$0.16
Long Distance	$ 4.00	$0.46	$0.23	$0.00	$0.23	-$0.23
TOTAL	$34.00	$1.20	$0.60	$0.53	$1.13	-$0.07

- Assuming a customer with **high** long distance usage and high wireless usage, the impact would be as follows:

Service	Monthly Bill	USF 11.4% interstate	50% inter state revenue	50% Connections	Total 50/50	Difference
Local	$30.00	$0.74	$0.37	$0.53	$0.90	$0.16
Long Distance	$60.00	$6.84	$3.42	$0.00	$3.42	-$3.42
Wireless	$60.00	$1.95	$0.98	$0.53	$1.51	-$0.44
TOTAL	$150.00	$9.53	$4.77	$1.06	$5.83	-$3.70

- Assuming a customer with **high** local usage (including intrastate toll) and low long distance usage, the impact would be as follows:

Service	Monthly Bill	USF 11.4% interstate	50% inter state revenue	50% Connections	Total 50/50	Difference
Local	$60.00	$0.74	$0.37	$0.53	$0.90	$0.16
Long Distance	$ 4.00	$0.46	$0.23	$0.00	$0.23	-$0.23
Wireless	$30.00	$0.97	$0.49	$0.53	$1.02	$0.05
TOTAL	$94.00	$2.17	$1.09	$1.06	$2.15	-$0.02

- Under the examples modeled, it appears that the 50/50 Method produces better results for residential customers in 2007 than the current interstate revenue base. Nevertheless, there still would be a shift in contribution responsibility from users of long distance to local users. However, use of the 50/50 Method appears to mitigate any negative impact on low volume users.